

Message Text

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PAGE 01 BONN 04944 261108Z

11
ACTION EUR-12

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FM AMEMBASSY BONN
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C O N F I D E N T I A L BONN 04944

DEPARTMENT PASS TREASURY AND FRB

E.O. 11652: GDS
TAGS: EFIN, GW
SUBJECT: GERMAN INDUSTRIAL LEADER COMMENTS ON WEAKNESS
OF DOLLAR

1. DR. HANS DICHGANS, THE EXECUTIVE DIRECTOR OF THE
VERY INFLUENTIAL GERMAN FEDERAL ASSOCIATION OF
INDUSTRIES (ROUGHLY EQUIVALENT TO OUR NATIONAL
ASSOCIATION OF MANUFACTURERS), TOLD AN EMBOFF THAT HE
IS CONCERNED BY THE APPARENT NEGLECT BY THE US
GOVERNMENT IN THE MAINTENANCE OF THE STRENGTH OF THE
DOLLAR. HE SAID THAT THE WEAKNESS OF THE DOLLAR IN THIS
SENSE WAS A CAUSE OF CONCERN FOR GERMAN INDUSTRIALISTS,
FOR WHICH HE PURPORTED TO SPEAK. THERE WAS NO WORRY ON
THEIR PART, HE SAID, FOR THE FUNDAMENTAL STRENGTH AND
ECONOMIC POTENTIAL OF THE UNITED STATES, WHICH HE FELT
WAS NOT AT ALL REFLECTED IN THE PRESENT UNREALISTICALLY
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PAGE 02 BONN 04944 261108Z

LOW QUOTATION OF THE DOLLAR.

2. DR. DICHGANS SAID WHAT IS PREFERRED FROM THEIR VIEW IS THAT THE USG ADOPT A BASIC OVERALL PHILOSOPHY OR GUIDELINE ON EXCHANGE POLICY. SUCH A GUIDELINE WOULD BE BASED ON THE KNOWN FACTORS RELATING TO LIKELY FUTURE DEVELOPMENTS IN INFLATIONARY TRENDS AND ECONOMIC DEVELOPMENT IN GENERAL. ON THESE HE HAD NO DOUBTS AS TO THEIR LONG-TERM POSITIVE TREND AND ABOUT WHICH HE FELT WE ALSO SHOULD HAVE NO DOUBTS. SINCE THERE WAS THIS FUNDAMENTAL UNDERLYING ECONOMIC STRENGTH, THE US, HE INFERRED, SHOULD UNDERTAKE IN A MORE ACTIVE MANNER THE SUPPORT OF THE DOLLAR. IN THIS WAY THE RELATIVELY SHORT-TERM BUT SHARP DIPS IN THE EXCHANGE RATE COULD BE MORE EFFECTIVELY SMOOTHED OUT AND THEREBY LESSEN THE DAMAGE WROUGHT TO THE INTERNATIONAL ECONOMIC SITUATION CAUSED BY THE PRESENT EXCHANGE MARKET UNCERTAINTIES.

3. IT WAS POINTED OUT BY THE EMBOFF WITH WHOM DICHGANS SPOKE THAT ONE OF THE UNDERLYING FACTORS ACCOUNTING FOR THE CURRENT WEAKNESS HAD TO DO WITH INTEREST RATE DIFFERENTIALS. THE LOWER INTEREST RATES IN THE US WERE DEMANDED BY THE NEED TO STIMULATE THE DOMESTIC ECONOMY WHICH ASSUMES A FAR GREATER IMPORTANCE IN OUR ECONOMIC POLICY MAKING THAN DOES THE EXTERNAL SIDE OF OUR ECONOMY. FURTHER, TO RAISE INTEREST RATES IN ORDER TO BENEFIT THE DOLLAR ON INTERNATIONAL MARKETS AND THEREBY HAMPER OUR ECONOMIC RECOVERY WOULD SIMPLY NOT MAKE GOOD SENSE FOR THE US.

4. COMMENT: DICHGANS' COMMENTS REGARDING THE NEED FOR THE US TO DO SOMETHING TO STRENGTHEN THE DOLLAR IN INTERNATIONAL MARKETS MIRRORED THOSE THE EMBASSY HAS BEEN RECEIVING FROM HIGH-LEVEL OFFICIALS IN THE GERMAN GOVERNMENT (EVERLING OF ECONOMICS, AND HERMES OF FOREIGN AFFAIRS). IT SHOULD BE ALSO NOTED, HOWEVER, THAT FINMIN AND CENTRAL BANK OFFICIALS SEEM LESS CONCERNED ABOUT THE COURSE OF THE DOLLAR.
HILLENBRAND

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